E/CONF.39/H/44
25 Oct.1962
ORIGINAL : ENGLISH

UNITED NATIONS CONFERENCE
ON THE APPLICATION OF SCIENCE AND TECHNOLOGY
FOR THE BENEFIT OF THE LESS DEVELOPED AREAS

Agenda Item: H.1/H.3

Israel

ECONOMIC PLANNING AS AN INSTRUMENT OF DEVELOPMENT

By David KOCHAV,
Director,
Economic Planning Authority,
Israel

Papers have been contributed to the United Nations Conference on the Application of Science and Technology for the Benefit of the Less Developed Areas as working papers for that Conference. They are published as presented by the contributors, and the contents and the views expressed are those of the contributors. (See notes overleaf.)

NOTES

1. Papers selected for inclusion in General Sessions will be available at the Conference in the following official languages of the United Nations: English, French, Russian and Spanish.

2. Papers selected for inclusion in Specialized Sessions will be available at the Conference in only one of the above official languages.

3. Summaries of all papers, as submitted by contributors, will be available at the Conference in the following official languages of the United Nations: English, French, Russian and Spanish.

4. Papers and summaries will not be available for general distribution in advance of the Conference. They will be published in advance in limited quantities only for the use of delegations of participating governments and of other authorized participants. Post-Conference publication and general distribution of the Conference Proceedings will follow United Nations practices as laid down by the United Nations Publications Board.

ECONOMIC PLANNING AS AN INSTRUMENT OF DEVELOPMENT

by

DAVID KOCHAV

Director, Economic Planning Authority (Israel)

1. Economic Planning - a Pre-Condition for Rapid Development

Rapid economic development is the primary task confronting the developing countries. It is none the less one of the central assignments of the whole world, since it is only through rapid development, that the striking and continuously growing gap in the standard of living between the rich and the poor countries, has a chance of being gradually narrowed.

Rapid development is a most complicated process and calls for an actually dramatic change in the traditional ways of life, and in the basic social and economic structure. It is impossible for such a change to take place of itself - without some central planning. It is widely accepted at present, that central economic planning is "a must" for a rapidly developing country.

Economic planning is a systematic process of determining the objectives of the national economy for a certain period, in quantitative terms, and designing in detail the means and ways by which they may be carried out. Owing to the fact that the investment program is one of the principal instruments - though by no means the only one - for ensuring economic development, it is usually in the center of the development program.

2. How is a Development Program Prepared?

In preparation of a development program, a clear distinction should be made between three kinds of factors:

a. The objectives of the program;

b. The "external" factors;

c. The policies and means which will be used for carrying out the plan.

a. The Objectives

The economic development objectives have to portray the main economic and social assignments which the country is actively seeking to achieve. The central objective of every development program is : A rapid rate of growth of the national product. Since in all the developing countries there is also a rapid growth of population owing to natural reproduction - usually at a rate of 2 per cent per annum, and sometimes at even a higher one - it is important to state as an objective the rate of growth not merely of the total national product, but also of the per capita rate of growth. Only if the country succeeds in ensuring a substantial growth of the per capita national product, will it be able to raise the standards of living. Usually, an annual increase of 2 per cent in the per capita national product has been considered as satisfactory rate, though a higher rate of growth is quite possible.

However, a rapid rate of growth of the national product is not necessarily the sole objective of economic development. It is feasible that certain countries may consider an increasing degree of equality in the distribution of income and property as another important objective of economic development. This is especially improtant in those countries where, though the general standard of living is low, some population groups enjoy relatively high incomes.

Similarly, raising the economic and social standard of a certain region within the country, might also be an important objective of the development plan.

The objectives of economic planning must be determined quantitatively; e.g., a national product rate of growth of x per cent per annum, or an increase of the per capita national income to a standard of y rupees per annum, etc. This quantitative estimation is required not because of the accuracy of the figure obtained, but owing to the importance of systematically examining the quantitative relations between the objectives and the means, by which they are hoped to be reached.

From this point of view, it is often desirable to state possible alternatives objectives of the program - such as alternatives rates of growth of the national product- at least as the earlier phases of preparing a development program. Stating alternative objectives might be the best way to clarify the relations between the measures, which the government is willing and able to take, and the objectives which can be achieved.

It is important that the objectives of the program should be confined to the principal matters alone. A long list of desirable objectives, may cloud the distin-

ction between the primary and the secondary ones, thereby distracting attention from the highlights of the program.

The objectives of development programs should be fairly ambitious and at the same time realistic. Just as a program lacking any immagination and not contributing towards any real improvement could not be sufficient, a government should be careful not to raise illusions, as to the rapidity of economic development.

Determining the objectives of the program is a decision of the most important political bearing. It is therefore essential that this should be determined, after a thorough discussion of the matter in the executive political institutions (e.g., the cabinet), and if possible also at the legislative ones.

b. The "External" Factors

Every economic plan is carried out within a frame-work of political, social and even economic factors which the plan cannot control, and yet these factors have a considerable influence on it. It is customary to refer to these as the frame-work of "external factors" - namely "external from the point of view of the economic program and policy makers (or "exogenous factors" in the economist's jargon). It is important that the assumption of the planners as to these factors are explicitly spelled out in the program, so that it may be made clear that should these factors change - this would certainly have its influence on the program and the possibilities of its being carried out.

As an example of these "external" factors - the world prices of certain raw materials, bearing an influence on the economy of a country, may be mentioned. Fluctuations in such prices clearly have a great deal of influence on the developing countries, most of whom are major producers and exporters of various raw materials, and yet are not able to control prices of their export products. (Indeed, the downward trend in prices of most of the raw materials in the world, unaccompanied by a parallel decline in the prices of finished goods, is causing great difficulties to the development of many countries).

One of the main "external" factors which should be mentioned - and, indeed, be one of the fundamentals of every economic plan - is the expected "reproduction" rate of the population. Should the government find it undesirable or impossible to plan also the birth rate, the reproduction rate should be taken into account by the economic program as a "given" figure. Similarly, in certain countries the size of immigration - which may well be determined by factors outside the sphere of economic policy - might be of great importance.

A development program must also be based on assumptions as to the size of expenditures on "non-economic" matters, such as defense, etc.

c. The Policies and the Means for Carrying out the Plan

Every plan must draw up the policies and the means by which the determined objectives will be achieved. The drawing of policy measures and carrying them out is what turns a projection (which only aims at a forecast of the expected developments in the economy) into a plan, the purpose of which is to intervene actively in developments with view of achieving the desired objectives.

The policy measures may be divided into two kinds:

1) The various spheres of economic policy;
2) The investment program.

The planning of investments in specific sectors will be dealt with in the following chapter. Here we shall concentrate on general economic policies which are to some extent at the disposal of governments.

The primary problem is diverting resources away from private and public consumption and directing them to development. In every national economy there is a certain amount of savings - namely, an accumulation of additional productive assets to be used for development. However, it is only natural that countries with low level of income suffer from a low level of saving - relatively both to the level of saving in countries with a higher national income, and certainly to their own enormous needs of investments. Raising the rate of saving is, therefore, a central theme of policy in every development plan.

A successful action in this direction calls for various measures which will raise the profitability of savings - compared to further spending of consumption - such as paying an adequate rate of interest to savers and securing the real value of their savings from the effects of inflation. A capital market should be organised, in which shares and bonds will be currently bought and sold, so as to ensure the liquidity of savings. Steps must be also taken with view of directing private savings from such forms as acquisition of gold to productive investment. The owners of existing enterprises should be induced not to spend their profits on consumption, but instead to reinvest them in their plants - by making such investments more profitable. All this might often not be enough, and the need may rise to add public saving to the private - through financing development from ordinary sources of the government revenues, such as taxes. These are only some of the many problems raised by increasing domestic savings, and they call various reforms - not only in the economic sphere, but also in the social, institutional and legislative frame-work which determines the rate of saving.

Even in those cases in which the government would succeed in raising the level of savings, there will still be need to fill up the resources by raising foriegn

capital. "No man can lift himself by his own bootstraps" - and neither can a young country. Every rapidly developing economy requires capital imports from abroad. This capital can come from loans extended by international institutions (like the World Bank or IDA), foreign governments or banks, and occasionally also from grants. The country should determine its policy regarding the acceptance of foreign loans and the conditions (e.g., the rate of interest, the length of payment period, etc.), under which it is capable and prepared to receive the loan. No less important are the methods used, and the laws passed, by the government in order to encourage foreign investments - including the government's policy as to the extent of ownership of assets allowed to foreign investors.

We have discussed in some detail questions of the rate of savings and of raising foreign capital - not merely because of their great importance to financing development, but also in order to illustrate how complicated the problems which concern the formulation and the implementation of an economic programs policy may be.

We can now only mention a list of decisive policy matters for any development prgram:

The tax system and its effect on current production and on development;

The wage and profit policy;

The monetary policy; (i.e., the policy determining the amount of money supply and credits)

The rate of unemployment tolerated;

The agrarian policy;

The measures of training workers for development purposes;

The size of public expenditure on health, education, social welfare, etc.;

The methods of encouraging exports;

The policy regarding imports.

This, again, is only a short list of policy terms bearing a great deal of influence on economic development. These matters must be examined fundamentally, so that development plan should determine the steps which the government will take in the economic, social, legislative and organizational fields, in order to achieve the objectives of the program.

3. Preparing Sectoral Development Programs

In addition to the macro-economic policy measures which determine the frame-work of the program, specific development programs for the various sectors should be prepared.

The starting point for preparation of such programs is determining the "basket" of goods and services needed at the termination of the period with which the program deals (usually, four or five years). To do this, one must first determine the amount

of consumption goods which the public will wish to buy. This can be done on the basis of the projected size of the population, and its division into age and other groups, as well as on its expected level of income. The fact that the consumer usually allocates its additional expenditure differently from the way it spends its former outlays, should also be taken into consideration. Thus, the demand for basic food stuffs will often rise at a much lower rate than the total expenditure, while on the other hand, the demand for certain industrial products (especially consumer durables), will rise at a much higher rate. It is quite a common fallacy on the part of enterprises, and sometimes governments too, to assume that different sectors tend to grow at a similar rate; this causes misinvestments in some sectors and a deficiency in the development of others.

In addition to this, there should be an estimate made, on the basis of market research, of foreign demand for the country's export goods.

The demand for intermediate goods, raw materials and equipment - derived from the demand for finished goods - should be examined. Input-output tables, indicating the technical inter-relations between the various sectors of the economy, are an important instrument for determining the effect that the development of one sector has on the others.

In the second stage, it has to be decided which of the required goods should be supplied from domestic production and which by imports, and how these imports are to be financed. This calls for a careful analysis of the expected costs of production in the various branches of the economy, in comparison to international prices, in order to determine in each case whether any benefit is derived from producing a good domestically rather than importing it.

Here, a warning should be mentioned against quite a common tendency in a number of countries - to produce as many goods as possible domestically, hoping to achieve some degree of self sufficiency. This tendency is especially strong towards "basic products" (such as steel) - even in those cases when domestic production costs are well above the import prices. Thus, plants are often erected, although they cannot do without subsidies - whether directly or in the form of restrictions on cheaper imports - while other sectors, in which domestic production may prove much more efficient, could have been developed alternatively.

In the third stage, an investment program for new and existing enterprises has to be prepared. Such a program would generally be more detailed for the basic enterprises; while, for smaller industrial programs general outlines might be sufficient at the first stage. Not only direct investments in productive enterprises are to be taken into consideration when preparing the development program, but also investments

such as investments in supplying power and water services, transportation facilities - should also be taken care of

Eventually, a scale of priorities as to the investments in the various sectors must be set up - should the quite possible case of contraction of investments occur, or, on the contrary, should new openings of development in a more extensive way arise.

After all the above is considered, a development plan for the various sectors of the economy can be designed. It is obvious that designing a plan is not enough, and that the carrying out of it has to be continuously surveyed so as to discover the plan's weak-points and take care of them in good time.

This is the general frame-work for planning development. Of course, no frame-work should be looked upon schematically. A development plan must be made to fit the special conditions of every country. There is no mistake worse than blindly imitating the development of other countries. The planning authorities have to take into consideration not only the specific needs of every country, but also, if possible, the special problems of various regions within the country.

4. The Importance of Investment in Human Capital

The need for investment in equipment and physical assets is always strongly emphasized in development programs. However, a national economy is not developed with machinery and buildings alone. Development calls also for human capital - in the form of some minimum levels of health and education for the whole population, and occupational training of workers for carrying-out the development program. It is most important to make sure that there exsits sufficient manpower, for carrying out the development plan - both at the level of skilledworkers, and at the higher levels of engineers, technicians or capable administrators. Although every developing country must at its first stages have know-how of foreign exports, every effort should be made to train adequate numbers of suitable local experts at all levels.

A substantial part of the economy's resources should be allocated to raising the education and health levels and to training workers - not merely owing to the human and social values of such an act, but also for pure economic reasons. Investment in human assets quite often "pays off" no less than investment in physical production assets.

Great importance should be attached, in the course of carrying out a development plan, to improvement of the administration. Even the best development plan, will never be carried out without an efficient administration.

The scarcity of enterpreneurship is one of the factors which limits economic development mostly. To achieve a rapid rate of growth all able and honest enterpreneurs should not only be tolerated, but actively encouraged -waether they are

private, public or governmental.

At last, one more point should be stressed: No development program can by any means be a substitute for the right development policy. A plan alone - even the best - cannot yet ensure development in the desirable direction. Planning is an indispensible frame-work for determining the right policy; but only the carrying out of efficient policies by the government and the co-operation of the public can ensure an achievement of the objectives of the plan.

1001 E - Oct.1962 - 1,6